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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9481

INFO AMEMBASSY ANKARA

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 03314

E.O. L1652: GDS

TAGS: PINT, PGOV, PFOR, EGEN, UK

SUBJECT: FEBRUARY IN THE UNITED KINGDOM

REF: LONDON 1671

SUMMARY. FEBRUARY ROUNDS OUT THE SECOND FULL YEAR SINCE HAROLD WILSON RETURNED TO POWER AND BOTH ACCOMPLISHMENTS AND STRAINS ARE SHOWING. SINCE RETURNING TO DOWNING STREET, WILSON HAS KEPT BRITAIN IN THE EC, PRESERVED AND STRENGTHENED THE GOVERNMENT'S RELATIONSHIP WITH THE UNIONS, LAUNCHED AN EFFECTIVE ATTACK ON INFLATION, INSTITUTED AN UNPRECEDENTED INCOMES POLICY AND DEvised A NEW ECONOMIC STRATEGY. THESE ACHIEVEMENTS HAVE HAD THEIR POLITICAL COSTS. THE LABOR PARTY'S LEFT-WING IS INCREASINGLY ALIENATED BY WHAT IT PERCEIVES AS THE GOVERNMENT'S REPUDIATION OF SOCIALIST GOALS AND THE TORIES ARE RALLYING BEHIND A STEADILY MORE CONFIDENT MARGARET THATCHER. NONETHELESS, WILSON REMAINS CLEARLY IN CONTROL, A FACT EXEMPLIFIED BY REACTION TO HMG'S PUBLIC EXPENDITURE WHITE PAPER WHICH SHARPLY REDUCED PLANNED RATES OF GROWTH IN VIRTUALLY ALL GOVERNMENT PROGRAMS. THE ISOLATED LEFT HOWLED, THE TORIES' CRITIQUE WAS LOST IN THE DIN AND THE POWERFUL TRADE UNION LEADERSHIP ACQUIESCED. MEANWHILE, THERE IS A PALPABLE FEELING AFOOT IN BRITAIN THAT THE WORST OF THE RECESSION IS PAST. BUT EVENTS IN SOUTHERN AFRICA THREATENED TO OVERSHADOW WILSON'S WELL-EARNED RIGHT TO SMILE. THERE IS NOW A DISCERNABLE SENSE OF MELANCHOLY IN THE FOREIGN OFFICE, A FEELING THAT TIME IS RUNNING OUT FOR RHODESIA, THAT A HUMAN TRAGEDY AND POLITICAL DEFEAT OF SERIOUS PROPORTIONS IS DEVELOPING IN SOUTHERN AFRICA AND THAT THERE IS LITTLE THIS GOVERNMENT CAN OR WILL DO ABOUT IT. END SUMMARY.

1. FEBRUARY ROUNDS OUT THE SECOND FULL YEAR SINCE HAROLD WILSON RETURNED TO POWER. AS IS TYPICAL AT THIS JUNCTURE IN THE EVOLUTION OF A BRITISH GOVERNMENT, BOTH THE ACCOMPLISHMENTS AND THE STRAINS ARE SHOWING. ON THE PLUS SIDE, WILSON HAS REASON TO BE PROUD OF HIS RECORD SINCE

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MOVING BACK TO DOWNING STREET. THROUGH THE DEVICE OF THE REFERENDUM, HE KEPT BRITAIN SAFELY IN THE EC HARBOR IN THE FACE OF OPPOSITION FROM HALF OF HIS PARTY. HE HAS PRESERVED AND STRENGTHENED THE GOVERNMENT'S VITAL COOPERATIVE RELATIONSHIP WITH THE TRADES UNIONS CONGRESS (TUC), DESPITE, OR PERHAPS IN PART BECAUSE OF THE DEEPENING ECONOMIC CRISIS. BUILDING ON THIS STEADILY FIRMER

ALLIANCE WITH THE TUC, IN THE LAST YEAR THE WILSON GOVERNMENT HAS LAUNCHED A CONCERTED AND EFFECTIVE ATTACK ON INFLATION, SOLD AN INFORMAL, AND UNPRECEDENTED, INCOMES POLICY TO THE UNIONS AND DEVISED A NEW ECONOMIC STRATEGY -- ENDORSED BY LABOR AND BUSINESS -- WHICH IS A NECESSARY, IF STILL UNPROVEN, STEP IN BEGINNING BRITAIN'S ECONOMIC REHABILITATION. FURTHER. LABOR MP'S BOAST THAT THE GOVERNMENT'S RECORD OF LEGISLATIVE ACHIEVEMENT IS THE MOST EXTENSIVE FOR A COMPARABLE PERIOD IN BRITISH HISTORY. FAR-REACHING CHANGES HAVE BEEN IMPLEMENTED OR ARE UNDER ACTIVE PARLIAMENTARY CONSIDERATION IN THE FIELDS OF INDUSTRIAL RELATIONS, EDUCATION. HEALTH SERVICES, FISCAL POLICY. LAND DEVELOPMENT AND GOVERNMENT (DEVOLUTION) WHICH OVER TIME COULD PROFOUNDLY ALTER BRITISH SOCIETY.

2. BUT THESE ACHIEVEMENTS HAVE HAD THEIR POLITICAL COSTS, AND THESE COSTS ARE LIKELY TO MULTIPLY IN THE MONTHS AHEAD. LABOR LEFT-WINGERS ARE INCREASINGLY ALIENATED BY

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WHAT THEY PERCEIVE AS THE GOVERNMENT'S REPUDIATION OF THE PARTY'S SOCIALIST GOALS. HARD-CORE DISSIDENT LABOR MP'S -- ABOUT 40 IN NUMBER -- HAVE THE CAPACITY TO BRING DOWN THE GOVERNMENT SHOULD THEY VOTE IN PARLIAMENT WITH THE TORIES. ALTHOUGH SUCH AN ACT OF PARTY DISLOYALTY IS DIFFICULT TO FORESEE. THE LABOR LEFT'S ACID WILL CONTINUE TO EAT AT THE EDGES OF THE WILSON CONSENSUS, A PROCESS WHICH MAY BE REINFORCED BY SOME FURTHER DROP IN MOST PEOPLE'S STANDARD OF LIVING IN THE COMING YEAR. MOREOVER, THE DEVOLUTION DEBATE AHEAD WILL FURTHER CORRODE THE COHESIVENESS OF THE LABOR PARTY AND GOVERNMENT. FINALLY, THE WILSON GOVERNMENT'S LEGISLATIVE RECORD, TEPID AS IT SEEMS TO THE LEFT-WING TRIBUNITES, HAS ACCENTUATED SOCIAL POLARIZATION IN BRITAIN AND ALARMED THE CONSERVATIVE SECTORS OF SOCIETY WHICH, RALLYING BEHIND A STEADILY MORE CONFIDENT MARGARET THATCHER, WILL FIGHT BACK. IN SHORT. SOME MEASURE OF POLITICAL DECAY HAS SET IN ON THE WILSON ADMINISTRATION. BUT THESE INTERNAL DIFFICULTIES ARE AN INEVITABLE PRICE FOR A LABOR PARTY IN POWER, AND WE WOULD EXPECT WILSON AS MERLIN TO CONTINUE TO SAW HIS LEFT-WING CRITICS IN HALF BEFORE A SUBDUED TUC AUDIENCE WHICH, THOUGH UNCOMFORTABLE IN THEIR SEATS. WILL ACCEPT FOR THE FORESEEABLE FUTURE THE GOVERNMENT'S ASSERTIONS THAT WITHOUT GREATER CONTROL OVER PUBLIC EXPENDITURE AND DE-

MAND ON ECONOMIC RESOURCES, INFLATION AND RESULTING HIGH LEVELS OF UNEMPLOYMENT ARE LIKELY TO CONTINUE AT UNACCEPTABLE LEVELS.

3. THIS SHARED PERCEPTION AMONG WILSON, HEALEY, AND THE UNIONS OF BRITAIN'S ECONOMIC PLIGHT' WAS FURTHER CONFIRMED IN THE MIDDLE OF THE MONTH ON THE OCCASION OF THE RELEASE OF HMG'S PUBLIC EXPENDITURE WHITE PAPER WHICH OUTLINED SPENDING TARGETS THROUGH 1980. THE GOVERNMENT ANNOUNCED ITS INTENTION TO HOLD REAL GROWTH IN EXPENDITURE VIRTUALLY FLAT BETWEEN 1977 AND 1980 AFTER ABOUT A 1 PERCENT INCREASE DURING THE COMING FISCAL YEAR, A POLICY OF BUDGETARY CONSTRAINT UNIMAGINABLE A YEAR AGO. IN THE PAPER, CONFIDENTIAL

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AVAILABLE RESOURCES ARE ALLOCATED ACCORDING TO A REORDERED SET OF PRIORITIES STRESSING INVESTMENT AND INDUSTRIAL EMPLOYMENT RATHER THAN CURRENT SPENDING ON EXISTING PROGRAMS. TO REALIZE THE 1977-80 SPENDING LEVELS, THERE ARE SHARP REDUCTIONS IN THE PLANNED RATES OF GROWTH IN VIRTUALLY ALL GOVERNMENT EXPENDITURE FROM EDUCATION, HOUSING AND TRANSPORT TO DEFENSE. ONLY SPENDING ON INDUSTRY AND EMPLOYMENT ESCAPED THE AXE. THIS WRENCHING CHANGE IN DIRECTION, WHICH IS LARGELY AT THE EXPENSE OF SOCIAL SERVICES, IS DESIGNED TO REDUCE THE GOVERNMENT SHARE OF GNP FROM ITS PRESENT 60 PERCENT (INCLUDING TRANSFER PAYMENTS) TO 53 PERCENT BY 1980.

4. THE TRIBUNITES LABELLED THE WHITE PAPER A "DOCUMENT OF SHAME" AND THEIR FURY EASILY DROWNED OUT THE ORTHODOX, TORY CRITIQUE WHICH CALLED FOR EVEN GREATER CUTS. BUT THE ALLIANCE BETWEEN THE GOVERNMENT AND TRADE UNION POTENTATES HELD FIRM ONCE AGAIN. THE LABOR LEFT WAS ISOLATED AND SUBJECTED TO DEFEATS IN THE PARTY'S NATIONAL EXECUTIVE AND WITHIN THE PARLIAMENTARY LABOR PARTY CAUCUS. THESE SUCCESSES SURELY BOLSTERED THE GOVERNMENT'S POSITION FOR THE KEY TESTS COMING IN THE SPRING: THE BUDGET AND THE NEGOTIATION OF THE SECOND PHASE OF THE INCOMES POLICY.

5. MEANWHILE, THE PERFORMANCE OF THE ECONOMY CONTINUES TO IMPROVE THE PROSPECTS FOR THE SPRING CLIMATE IN WHICH THE GOVERNMENT MUST MANEUVER. THE FEBRUARY UNEMPLOYMENT FIGURES (5.2 PERCENT) SUGGEST A POSSIBLE EASING IN THE RATE OF INCREASE IN UNEMPLOYMENT. THE RATE OF INFLATION, 23.4 PERCENT (BETWEEN JANUARY 1975 AND JANUARY 1976), MASKS THE IMPROVEMENT (13 PERCENT AT AN ANNUAL RATE) THAT HAS OCCURRED OVER THE LAST 6 MONTHS. PRELIMINARY FOURTH QUARTER FIGURES INDICATE THAT GNP INCREASED SLIGHTLY, THE FIRST SUCH QUARTERLY INCREASE SINCE THE THIRD QUARTER

OF 1974. IN SHORT, THERE IS A PALPABLE FEELING AFOOT
THAT THE WORST OF THE RECESSION IS PAST.

6. BUT WHILE BRITAIN'S ECONOMIC PROSPECTS BRIGHTENED,
OR AT LEAST STOPPED GETTING DARKER, EVENTS THOUSANDS OF
MILES AWAY IN SOUTHERN AFRICA REVIVED OLD AND TENDER
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MEMORIES AND THREATENED TO WIPE AWAY WILSON'S
WELL-EARNED
RIGHT TO SMILE. SEEN FROM WHITEHALL, COMMUNIST SUCCESSES
IN ANGOLA TOOK ON THE TONE OF A PRELUDE TO A WIDER
ORCHESTRATION OF INFLUENCE IN THE REGION. PESSIMISTIC
PARTS OF LONDON'S AFRICANIST ESTABLISHMENT HASTENED TO
DRAW A PICTURE OF ANGOLA TODAY, RHODESIA TOMORROW. AND
AS THE FIGHTING WOUND DOWN IN THE FORMER PORTUGUESE
COLONY -- MARPED IN ITS LAST STAGES BY THE BLOODY

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ADVENTURES OF BRITISH MERCENARIES -- THE ATTENTION OF THE
GOVERNMENT RELUCTANTLY SHIFTED TO RHODESIA.

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7. IN TWO PARALLEL DEVELOPMENTS, HMG ENTERED INTO CON-
TACT WITH IAN SMITH AND HIS WHITE GOVERNMENT. WARNED BY
RHODESIAN NATIONALIST JOSHUA NKOMO EARLY IN FEBRUARY
THAT SETTLEMENT TALKS WERE ON THE VERGE OF COLLAPSE,
FOREIGN SECRETARY CALLAGHAN DISPATCHED A SECRET EMISSARY
TO SOUTH AFRICA IN AN ATTEMPT TO PERSUADE PRIME MINISTER
VORSTER TO EXERT MAXIMUM MUSCLE ON SMITH TO COME TO
TERMS. THE EMISSARY FOUND VORSTER GLOOMY ABOUT THE
FUTURE AND UNWILLING TO CORNER SMITH. AT ABOUT THE SAME
TIME, SMITH SENT A CLOUDY MESSAGE TO CALLAGHAN VIA
MALAWI PRESIDENT BANDA THAT HE BELIEVED THE TALKS HAD
REACHED A STAGE WHERE THE BRITISH GOVERNMENT SHOULD
BECOME INVOLVED. CALLAGHAN TRIED TO CLARIFY THE ISSUE
BY SENDING SMITH A LETTER IN WHICH HE ASKED SMITH WHAT HE
HAD IN MIND. SMITH RESPONDED IN A TYPICALLY ELLIPTICAL
FASHION PERFECTED DURING A DECADE OF DISSEMBLANCE AND AT
THE SAME TIME PUBLICIZED THE EXCHANGE. CALLAGHAN AND
MINISTER OF STATE DAVID ENNALS COUNTERED WITH STRONG

PUBLIC STATEMENTS THAT SMITH WAS FACING HIS LAST CHANCE FOR A PEACEFUL SETTLEMENT, THAT HE MUST SHOW FLEXIBILITY, AND THAT IF HE PERSISTED IN HIS INTRANSIGENCE HE AND WHITE RHODESIANS WOULD FACE THE FUTURE ALONE.

8. WITH AN ABSENCE OF ENTHUSIASM AND OPTIMISM BORN OF A PARTLY PERCEIVED, PARTLY REAL LACK OF POWER, AT THE END OF FEBRUARY HMG DECIDED TO DISPATCH ANOTHER EMISSARY TO SOUTHERN AFRICA, THIS TIME TO TALK DIRECTLY TO SMITH AND TO EXPLORE WHETHER THE RHODESIAN HAD IN FACT RE-THOUGHT THE QUESTION OF MAJORITY RULE. FORMER FCO PERMANENT UNDER SECRETARY LORD GREENHILL RETURNED FROM SALISBURY OVER THIS PAST WEEK-END. ALL INDICATIONS ARE THAT HE FOUND SMITH AS ADAMANT AS EVER IN HIS REFUSAL TO CONTEMPLATE A TRANSFER OF POWER TO A BLACK GOVERNMENT. THERE IS NOW A DISCERNABLE SENSE OF MELANCHOLY IN THE FOREIGN
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OFFICE, A FEELING THAT TIME IS RUNNING OUT FOR RHODESIA, THAT A HUMAN TRAGEDY AND POLITICAL DEFEAT OF SERIOUS PROPORTIONS IS DEVELOPING IN SOUTHERN AFRICA AND THAT THERE IS LITTLE THIS GOVERNMENT CAN OR WILL DO ABOUT IT.
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